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Finances of Municipal Corporations and Urban Development in Bihar: A study of Darbhanga City.

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By

Ritesh Kumar

Under the guidance of **Dr. Md. Masroor Alam**

Supervisor

Dr. Md. Masroor Alam

Md Masroor Alam 01/04/2024

Assistant Professor

University Department of Economics

L.N.M.U. Darbhanga

Research Scholar

Ritesh Kumar 01/04/2024

Ritesh Kumar

University Department of Economics

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Introduction:

In modern society the concern of a government has broadened to cover not only the maintenance of law and order but also the promotion of the welfare of the whole community. This has enormously increased the scope of the functions and activities of the government. A large number of such functions are of a local nature and can be performed by local governments only, as they cannot be successfully undertaken at a state or national level. Local governments are assigned the task of performing these functions and providing a large number of social services from "womb to tomb". These local authorities supervise, direct and control our lives, awake and asleep at work and at play, they provide for all citizens a common minimum health, education welfare services, roads, peace and security and beauty of environment.

Municipal finance is about the revenue and expenditure decisions of municipal government. It covers sources of revenue that are used by municipal government's taxes (Property, income, sales, and excise taxes) user fees and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnership. Municipal finance also addresses issues around expenditure at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management. In developing countries like India, municipal finance suffers from the fiscally destabilizing effects of asymmetrical decentralization where devolution is proceeding according to a planned legal, institutional and regulatory framework, local authorities benefit from more predictable finances and, in many ways, greater discretion. Successive ad hoc adjustments to correct imbalances tend to disrupt municipal financial management. In all cases, local authorities in

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developing countries lack the supportive framework enjoyed by their counterparts in advanced countries. They must be creative and experiment with innovative approaches if they are to meet their economic and social objectives, particularly in generating employment, expanding service delivery, upgrading the urban environment and improving living conditions for proper communities. Government sponsored Municipal Development Fund (MDF) have provided some municipal authorities with resources for specific categories of projects, including revenue producing services and infrastructure.

The constitution's (73rd and 74th) amendment Acts, 1992 (for rural and urban local bodies respectively) have accorded a constitutional status to these institutions as the third tier of Government. The 74th amendment Act has mandated grass root level democracy in urban areas by assigning the task of preparation and implementation of plans for economic development and social justice to elected municipal councils and wards committees. Urbanization may be broadly defined as the societal process that creates the dynamic system that we call a city. It is complex process. In this process the population of a country is transformed from its rural and geographically well spread nature to an urban and highly concentrated one. From being individualistic in character, the society begins to depend more and more on public services apart from becoming more interdependent amongst themselves. This process is self-augmentative in character. As the city governments provide better and more efficient services, they attract more people within their folds creating additional demands on urban services. Many a time, beyond a certain peak, the quality of urban services ultimately begins to decline due to such continued additional pressures. Direct impact of urbanization is, thus, a growth in local public expenditure due to rise in demand for local public goods both in quantity and quality.

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Brief Introduction of Darbhanga Municipal Corporation:

Darbhanga is a municipal corporation town, presently headquarter of Darbhanga district as well as Darbhanga Division. Darbhanga is the 5th largest city of Bihar. It is one of the most important districts and big cities of North Bihar. Darbhanga is also known as Heart of the Mithilanchal. According to census 2011, the total population of the District is 3937385. The Male population is 2059949 and Female population is 1877436. The Population of Darbhanga Town is 371356. Darbhanga district is having a total geographical area of 2279 Sq. Km. It is situated between longitude 85 degree 45 minute East and 25 degree 53 minute North. Darbhanga Municipal Corporation was established on August 23, 1982. Darbhanga Municipal Corporation covers 19.18 sq. km. and is divided into 48 administrative wards.

Review Of Literature:

Mathur, P, Mukesh (1998) in his article "municipal finances in India: present status and future prospects" discusses the relationship between the performance of the present municipal civic services and the growing urbanization. He also describes the week and dissatisfactory function of the urban local bodies. In his article he has discussed, resource structure and expenditure structure, in resource structure octroi is a very important source of municipal revenue, and it contributes a significant part of this total revenue. The paper also describes the importance of property tax. He finds out the key resource generation areas in which he shows the refurbishing of property tax and increasing devolution. On the expenditure side, he explained that the majority of the states spend their total revenue on public health and public works. The expenditure is high in octroi levied states than non-octroi states.

Jha, Gangadhar (1998) in his article "enhancing municipal fiscal capability: issues in local resource mobilisation" analyse the overall trends in resource generation from local tax and non tax sources. He emphasized that much is required to be done to enhance the

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institutional capabilities of municipal government. There are needs to inject huge investment in municipal sector for the performing of better civic services. His paper highlights the weak trend in municipal finance particularly in terms of the own source revenue of the several states and advocates for the effective municipal administration for the levy of the tax and collection of those taxes. Jha regarded urban land as a healthy source of revenue for the municipal corporations.

Karnikar, A. Pethe, A. Karmarkar, D. (2002) in their article, "developing a quantative framework for determining of funds from the state government to local bodies" explore the criteria for allocation of funds as per the state finance commission recommendation from the state to urban local bodies to strengthen decentralization efforts by urban local bodies. The paper discusses the implementation of the recommendations of the 10th finance commission and criteria developed by the first state finance commission for devolution of fund and their application. He also focusses on the pattern of general revenue and expenditure of urban local bodies in Maharashtra and the level of services provided in cities. The paper suggests a formula based devolution procedure to urban local bodies. He suggests that state should constitute permanent data collection machinery that will provide continuous inputs for the operationalization of the proposed procedure.

Pethe, A. and Ghodke, G. (2002) examine the status of Indian infrastructure, including urban infrastructure, and argue for accessing capital market funds to bridge the resource gap, in view of the changing role of Governments. The paper argued for newer financial instruments like 'Municipal bonds' for financing urban infrastructure. To impart liquidity and create an incentive for individual agents to invest in the bonds, a thick and efficient secondary market for debt instruments is needed.

Vaidya H. and Vaidya C. (2004) in their article "the recent financial initiative among urban local bodies: a report" discusses that municipal corporations have raised funds outside

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their usual sources (grant and devolutions from the state government and through the capital markets and from banks). The paper focussed on the tax free municipal bond, and found that municipalities applying these tools are performing well. They have also suggested for the pooled financing for small and medium Municipal Corporations who are not able to issue tax free municipal bonds, and the objective of this pool is to provide a cost effective and efficient approach for smaller and medium size urban local bodies and to reduce the cost of borrowing. The paper emphasised on Public-Private-Partnership (PPP) in the development and maintenance of municipal infrastructure.

Mathur O P, (2006) in his article "urban finance" opines that the finances of municipalities are in a unsatisfactory state, with little impact over all of the seventy fourth constitutional amendment act. The paper shows that the spending level of municipalities is too low as compared with the established norms and standards. The accounting system is also low and do not permit a proper assessment of their finances. The paper also focuses on the way in which the functional role of municipalities has changed in recent years. He also discusses the fiscal and non-fiscal initiatives that have been taken by municipalities to improve their finances, functioning and resource mobilization. The paper shows that the recent reform measures that have taken by the central government called the Jawaharlal Lal Nehru national urban renewal mission (JNNURM). This scheme provides fund to sixty urban local bodies for sectors such as water supply, waste water disposal, road, bridge etc. He has also discussed the revenue base of municipalities and the abolition of octroi. The paper appreciated reform of property tax and adoption of accrual- based accounting system.

Objectives of the Study:

1. To examine the trends in major revenue sources and expenditures of municipalities and assess their fiscal position.
2. To examine the role of financing to municipalities in Urban Development of Bihar.

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3. To analyse the performance of Darbhanga Municipal Corporation in the provision of civic infrastructure.

Hypothesis:

- Expenditure and revenue of municipal corporations has increased over the period of time.
- Finances to municipal corporations has significant role in Civic infrastructure and Urban Development.

Data Source and Research Methodology:

The study is based on primary as well as secondary data, Primary data will be collected from Municipal corporation of Darbhanga City through questionnaire and interview method and secondary data which are published mainly by the Ministry of Finance, Government of India, Government of Bihar, other departments/offices of the government of India and RBI, Various issues of Indian Public Finance Statistics, Central finance Commission Reports, State Finance Commission Reports, Economic Survey, Annual Reports published by the Ministry of Urban Development. In terms of the methodology, the study will apply appropriate statistical tools which involve calculation of percentage, arithmetical average, simple growth rates and compound average growth rates.

CAGR:

Compound Annual Growth Rate (CAGR) measures an annual growth rate over a period of time. This measure is a constant percentage rate at which a variable grows or contracts year on year to reach its current value. The CAGR is more representative measure of annual growth rate over a number of years. One of the commonly used formulations for estimating compound growth rate is as follows.

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$$Y_t = a\,(1 + r)^t$$

Where,

Y = Number of units of income, expenditure,

r = Compound growth rate

t = time.

Taking logarithms of both sides the above equation becomes.

$$\text{Log } Y_t = \log a + t \log (1 + r).$$

Putting 1 + r = b the above equation becomes as

$$\text{Log } Y_t = \log a + t \log b$$

This equation can be estimated using Ordinary Least Square (OLS) as under

$$\text{Log } b = \frac{\sum \log y_t \,.\, t^*}{\sum t^{*2}}$$

Where, $\log y_t = \log Y_t - \log \bar{Y}$

$$t^* = t - \bar{t}$$

Thus

$$\text{Log } 1 + r = \frac{\sum \log y_t \,.\, t^*}{\sum t^{*2}}$$

Or

$$1 + r = \text{antilog of} \frac{\sum \log y_t \,.\, t^*}{\sum t^{*2}}$$

Therefore,

$$r = \left[antilog\ of\ \frac{\sum \log y_t \,.\, t^*}{\sum t^{*2}} - 1\right]$$

This r gives the rate of annual average growth over period t when converted in percentage terms

$$r = \left[antilog\ of\ \frac{\sum \log y_t \,.\, t^*}{\sum t^{*2}} - 1\right] \times 100.$$

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Significance of the Study:

The issues related to municipal finance have attracted the considerable attention of economists and policy makers. Researchers studied various issues related to financing of municipalities and its role to provide better basic amenities to the society like clean environment, road and safe drinking water. Drawing from the theories of public finances, scholars have examined several empirical issues relating to principles and practices of public financing of municipal corporations, the rationale for basic urban facilities like health care facilities, better drainage system etc.

Thus, municipal finance is necessary for development as well as for urbanization. The allocated funds must be utilized efficiently to achieve the maximum targeted goals of municipal corporation.

Tentative Chapters:

First Chapter-Introduction

Second Chapter-Review of Literature

Third Chapter-Research Methodology

Fourth Chapter- Analysis of Revenue and Expenditure of Municipal Corporations

Chapter Five- Financing Municipalities and its role in Urban Development of Bihar

Chapter Six-Performance of Darbhanga Municipal Corporation

Chapter Seven- Conclusion, finding and suggestions

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